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Macroeconomic policy questions: external debt crisis and development

Report of the Second Committee*

Rapporteur: Ms. Vanessa **Gomes** (Portugal)

I. Introduction

1. The Second Committee held a substantive debate on agenda item 51 (see A/61/420, para. 2). Action on sub-item (c) was taken at the 13th and 33rd meetings, on 17 October and 6 December 2006. An account of the Committee's consideration of the sub-item is contained in the relevant summary records (A/C.2/61/SR.13 and 33).

II. Consideration of draft resolutions A/C.2/61/L.6 and A/C.2/61/L.54

2. At the 13th meeting, on 17 October, the representative of South Africa, on behalf of the States Members of the United Nations that are members of the Group of 77 and China, introduced a draft resolution entitled "External debt crisis and development" (A/C.2/61/L.6), which read:

> "*The General Assembly*,
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> "*Recalling* its resolutions 58/203 of 23 December 2003, 59/223 of 22 December 2004 and 61/187 of 22 December 2005,
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> "*Recalling also* the International Conference on Financing for Development and its outcome, which recognizes sustainable debt financing as an important element for mobilizing resources for public and private investment,

* The report of the Committee on this item will be issued in five parts, under the symbol A/61/420 and Add.1-4.

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"*Recalling further* the United Nations Millennium Declaration adopted on 8 September 2000,

"*Recalling* the 2005 World Summit Outcome,

"*Recalling also* its resolution 61/265 of 30 June 2006 on follow-up to the development outcome of the 2005 World Summit, including the Millennium Development Goals and other internationally agreed development goals,

"*Recalling further* its resolution 57/270 B of 23 June 2003,

"*Concerned* that some low- and middle-income developing countries that are not eligible for debt relief under the Heavily Indebted Poor Countries Initiative are still facing difficulties in finding a durable solution to meeting their external debt-servicing obligations, which could adversely affect their sustainable development,

"*Welcoming* the fact that the Heavily Indebted Poor Countries Initiative has enabled heavily indebted poor countries to markedly increase their expenditures on health, education and other social services consistent with national priorities and development plans, emphasizing in this regard the need to ensure that debt relief be in addition to and not a replacement for other sources of financing,

"*Stressing the importance* of addressing the challenges of those heavily indebted poor countries that are facing difficulties in reaching the completion point under the Initiative, and expressing concern that some heavily indebted poor countries continue to face substantial debt burdens and need to avoid rebuilding unsustainable debt burdens after reaching the completion point under the Initiative,

"*Emphasizing* that debt sustainability is essential for underpinning growth, and underlining the importance of debt sustainability to the efforts to achieve national development goals, including the Millennium Development Goals, and that countries should direct those financial resources freed through debt relief, in particular through debt reduction and cancellation, towards activities consistent with poverty eradication, sustained economic growth and sustainable development and the achievement of the internationally agreed development goals, including the Millennium Development Goals,

"1. *Takes note* of the report of the Secretary-General;

"2. *Emphasizes* the special importance of a timely, effective, comprehensive and durable solution to the debt problems of developing countries, since debt financing and relief can be an important source of capital for economic growth and development;

"3. *Notes with concern* that there remains a large number of countries characterized as severely indebted;

"4. *Emphasizes* that creditors and debtors must share responsibility for preventing unsustainable debt situations;

"5. *Reiterates* that debt sustainability depends on a confluence of many factors at the international and national levels, emphasizes that country-specific circumstances and the impact of external shocks should be taken into

account in debt sustainability analyses, underscores the fact that no single indicator should be used to make definitive judgements about debt sustainability, and in this regard, while acknowledging the need to use transparent and comparable indicators, invites the International Monetary Fund and the World Bank, in their assessment of debt sustainability, to take into account long-term development needs of countries and fundamental changes caused by, inter alia, natural disasters, conflicts, changes in global growth prospects or in the terms of trade, especially for commodity-dependent developing countries, and to continue to provide information on this issue using existing cooperation forums, including those involving Member States;

"6. *Underlines* the fact that the long-term sustainability of debt depends, inter alia, on the economic growth, mobilization of domestic resources and export prospects of debtor countries and, hence, on the creation of an enabling international environment conducive to development, progress in following sound macroeconomic policies, transparent and effective regulatory frameworks and success in overcoming structural development problems;

"7. *Recognizes* that enhanced market access for goods and services of export interest to developing countries contributes significantly to debt sustainability in those countries;

"8. *Calls for* the full and more expeditious implementation of the Heavily Indebted Poor Countries and Multilateral Debt Relief Initiatives in order to allow the remaining eligible countries to benefit from needed debt relief;

"9. *Notes with concern* that many heavily indebted poor countries continue to face difficulties in achieving lasting debt sustainability despite having graduated from the Heavily Indebted Poor Countries Initiative, stresses, therefore, the importance of promoting responsible borrowing and lending and the need to help those countries to manage their borrowing so as to avoid a build-up of unsustainable debt, including through the use of grants, and underlines the importance of additionality of debt relief and the scaling up of aid in the form of grants in order to assist the heavily indebted poor countries in their efforts to achieve their long-term development objectives;

"10. *Welcomes and encourages* the efforts of the heavily indebted poor countries, calls upon them to continue to improve their domestic policies and economic management, inter alia, through poverty reduction strategies, and to create a domestic environment conducive to private-sector development, economic growth and poverty reduction, including a stable macroeconomic framework, transparent and accountable systems of public finance, a sound business climate and a predictable investment climate, and in this regard invites all creditors, both private and public, to encourage those efforts, for example through further participation in the delivery of debt relief in the framework of the enhanced Heavily Indebted Poor Countries Initiative and continued provision of adequate and sufficiently concessional financing by international financing institutions and the donor community;

"11. *Stresses* that debt relief can play a key role in liberating resources that should be directed towards activities consistent with poverty eradication,

sustained economic growth and sustainable development and the achievement of the internationally agreed development goals, including the Millennium Development Goals, and in this regard urges countries to direct those resources freed through debt relief, in particular through debt cancellation and reduction, towards these objectives;

"12. *Also stresses* the need to consider, where appropriate, and on a case-by-case basis, significant debt relief or restructuring for low- and middle-income developing countries with an unsustainable debt burden that are not part of the Heavily Indebted Poor Countries Initiative as well as the exploration of innovative mechanisms to comprehensively address the debt problems of those countries, and underlines that this should be achieved in a way that does not detract from official development assistance resources, while maintaining the financial integrity of the multilateral financial institutions;

"13. *Invites* creditors and debtors to further explore, where appropriate, and on a mutually agreed basis, the use of innovative mechanisms such as debt swaps, including 'Debt for Equity in Millennium Development Goal Projects';

"14. *Urges* the bilateral and multilateral creditors of the least developed countries to take effective debt-relief measures, in particular through the total, expeditious and unconditional cancellation of all outstanding debt owed by the least developed countries;

"15. *Reiterates* its invitation to the World Bank and the International Monetary Fund to keep the overall implications of the debt sustainability framework for low-income countries under review, calls for transparency in the computation of the country policy and institutional assessments, and welcomes the intention to disclose the country performance ratings of the International Development Association that form part of the framework;

"16. *Stresses* the need for comprehensive solutions to the debt problems of middle-income developing countries, which are also facing growing debt burdens but are excluded from the Multilateral Debt Relief and Heavily Indebted Poor Countries processes, to help them meet their development needs, including their financial, technical and technological requirements;

"17. *Welcomes* the progress made under the Multilateral Debt Relief Initiative, which provides for cancellation of 100 per cent of debt claims of the International Monetary Fund, the International Development Association and the African Development Fund on those countries that have completed the Heavily Indebted Poor Countries Initiative, calls for an expeditious and full implementation of the Heavily Indebted Poor Countries Initiative and cancellation of debt claims under the Multilateral Debt Relief Initiative, and underlines the importance of eligible countries maintaining sound economic policies and performance;

"18. *Notes with concern* that, in spite of the progress achieved, some countries that have reached the completion point of the Heavily Indebted Poor Countries Initiative have not been able to achieve lasting debt sustainability, stresses the importance of promoting responsible borrowing and lending and the need to help those countries to manage their borrowing and to avoid a build-up of unsustainable debt, including through the use of grants, and in this

regard welcomes the ongoing work by the International Monetary Fund and the World Bank to develop a forward-looking debt sustainability framework for heavily indebted poor countries and low-income countries;

"19. *Encourages* the Paris Club, in dealing with the debt of low- and middle-income debtor countries that are not part of the Heavily Indebted Poor Countries Initiative, to take into account their medium-term debt sustainability in addition to their financing gaps, and welcomes the Paris Club objective to tailor debt restructuring to the financial needs of the country concerned to ensure long-lasting debt sustainability for countries that have adopted policies that will secure an exit from Paris Club reschedulings, and invites the Paris Club to provide debt reductions needed for that purpose;

"20. *Notes* that credit-rating agencies play a critical role in determining countries' access to international capital markets as well as the cost of such borrowing, and calls for measures henceforth to enhance transparency in the rating methodologies to increase competition and accountability among the major credit-rating agencies;

"21. *Acknowledges* the ongoing work towards a more comprehensive approach to sovereign debt restructuring, supports the increasing inclusion of collective action clauses in international bond issuing, takes note of the work on issues related to international arbitration and mediation mechanisms, and welcomes the efforts by borrowing countries and private-sector creditors to broaden the consensus on the Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets, which could contribute to strengthening crisis prevention and enhancing predictability of crisis management, bearing in mind the need not to preclude emergency financing in times of crisis, to promote fair burden-sharing and to minimize moral hazard;

"22. *Calls for* the consideration of additional measures and initiatives aimed at ensuring long-term debt sustainability through increased grant-based financing, cancellation of 100 per cent of the official multilateral and bilateral debt of heavily indebted poor countries and, where appropriate, and on a case-by-case basis, significant debt relief or restructuring for low- and middle-income developing countries with an unsustainable debt burden that are not part of the Heavily Indebted Poor Countries Initiative, as well as the exploration of mechanisms to comprehensively address the debt problems of those countries;

"23. *Calls upon* donor countries, taking into account country-specific debt sustainability analyses, to continue their efforts to increase bilateral grants to developing countries, which could contribute to debt sustainability in the medium to long term, and recognizes the need for countries to be able to invest, inter alia, in health and education while maintaining debt sustainability;

"24. *Welcomes* the current efforts of, and calls upon, the international community to provide flexibility, and stresses the need to continue those efforts in helping post-conflict developing countries, especially those that are heavily indebted and poor, to achieve initial reconstruction for economic and social development;

"25. *Also welcomes* the current efforts of, and calls upon, creditors to provide flexibility to developing countries affected by natural disasters on a case-by-case basis so as to allow them to address their debt concerns;

"26. *Further welcomes* the efforts of, and calls upon, the international community to support institutional capacity-building in developing countries for the management of financial assets and liabilities and to enhance sustainable debt management as an integral part of national development strategies;

"27. *Invites* the United Nations Conference on Trade and Development, the International Monetary Fund and the World Bank, in cooperation with the regional commissions, development banks and other relevant multilateral financial institutions, to continue cooperation in respect of capacity-building activities in developing countries in the area of debt management;

"28. *Calls upon* all Member States and the United Nations system, and invites the Bretton Woods institutions as well as the private sector, to take appropriate measures and actions for the implementation of the commitments, agreements and decisions of the major United Nations conferences and summits, in particular those related to the question of the external debt problems of developing countries;

"29. *Requests* the Secretary-General to submit to the General Assembly at its sixty-second session a report on the implementation of the present resolution and to include in that report a comprehensive and substantive analysis of the external debt and debt-servicing problems of developing countries;

"30. *Decides* to include in the provisional agenda of its sixty-second session, under the item entitled 'Macroeconomic policy questions', the sub-item entitled 'External debt crisis and development'."

3. At its 33rd meeting, on 6 December, the Committee had before it a draft resolution entitled "External debt crisis and development" (A/C.2/61/L.54), submitted by the Rapporteur of the Committee on the basis of informal consultations held on draft resolution A/C.2/61/L.6.

4. At the same meeting, the Rapporteur orally corrected the draft resolution by adding a footnote to the ninth preambular paragraph, reading:

"Debt relief under the two initiatives is expected to reduce the debt stocks of the 29 heavily indebted poor countries that have reached the decision point by almost 90 per cent. 'Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) — Status of Implementation', prepared by the staffs of the International Development Association and the International Monetary Fund (August 2006)."

5. Also at the same meeting, the Committee adopted draft resolution A/C.2/61/L.54, as orally corrected (see para. 8).

6. After the adoption of the draft resolution, statements were made by the representatives of Switzerland, Finland (on behalf of the States Members of the United Nations that are members of European Union), the United States of America,

New Zealand and South Africa (on behalf of the States Members of the United Nations that are members of the Group of 77 and China) (see A/C.2/61/SR.33).

7. In the light of the adoption of draft resolution A/C.2/61/L.54, draft resolution A/C.2/61/L.6 was withdrawn by its sponsors.

III. Recommendation of the Second Committee

8. The Second Committee recommends to the General Assembly the adoption of the following draft resolution:

External debt crisis and development

The General Assembly,

Recalling its resolutions 58/203 of 23 December 2003, 59/223 of 22 December 2004 and 60/187 of 22 December 2005 on external debt crisis and development,

Recalling also the International Conference on Financing for Development and its outcome,[1] which recognizes sustainable debt financing as an important element for mobilizing resources for public and private investment,

Recalling further the United Nations Millennium Declaration adopted on 8 September 2000,[2]

Recalling the 2005 World Summit Outcome,[3]

Recalling also its resolution 60/265 of 30 June 2006 on follow-up to the development outcome of the 2005 World Summit, including the Millennium Development Goals and other internationally agreed development goals,

Recalling further its resolution 57/270 B of 23 June 2003,

Noting with satisfaction the improvement in the external debt situation of developing countries as a group in the course of the past year, but concerned that there remains a number of low- and middle-income developing countries that are still facing difficulties in finding a durable solution to their external debt problems, which could adversely affect their sustainable development,

Welcoming the fact that the Heavily Indebted Poor Countries Initiative has enabled heavily indebted poor countries to markedly increase their expenditures on health, education and other social services consistent with national priorities, development plans, and internationally agreed development goals, including the Millennium Development Goals,

Welcoming further the Multilateral Debt Relief Initiative,[4] which will make possible a marked increase in expenditures on health, education and other social services by heavily indebted poor countries consistent with national priorities and development plans,

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[1] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

[2] See resolution 55/2.

[3] See resolution 60/1.

[4] Debt relief under the two initiatives is expected to reduce the debt stocks of the 29 heavily indebted poor countries that have reached the decision point by almost 90 per cent. "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) — Status of Implementation", prepared by the staffs of the International Development Association and the International Monetary Fund (August 2006).

Stressing the importance of addressing the challenges of those heavily indebted poor countries that are facing difficulties in reaching the completion point under the Heavily Indebted Poor Countries Initiative, and expressing concern that some heavily indebted poor countries continue to face substantial debt burdens and need to avoid rebuilding unsustainable debt burdens after reaching the completion point under the Initiative,

Emphasizing that debt sustainability is essential for underpinning growth, and underlining the importance of debt sustainability to the efforts to achieve national development goals, including the Millennium Development Goals, and that countries should direct those financial resources freed through debt relief, in particular through debt reduction and cancellation, towards activities consistent with poverty eradication, sustained economic growth and sustainable development and the achievement of the internationally agreed development goals, including the Millennium Development Goals,

Convinced that enhanced market access for goods and services of export interest to developing countries contributes significantly to debt sustainability in those countries,

1. *Takes note* of the report of the Secretary-General;[5]

2. *Emphasizes* the special importance of a timely, effective, comprehensive and durable solution to the debt problems of developing countries, since debt financing and relief can be an important source of capital for economic growth and development;

3. *Also emphasizes* that creditors and debtors must share responsibility for preventing unsustainable debt situations;

4. *Reiterates* that debt sustainability depends on a confluence of many factors at the international and national levels, emphasizes that country-specific circumstances and the impact of external shocks should be taken into account in debt sustainability analyses, underlines the fact that no single indicator should be used to make definitive judgements about debt sustainability, and, in this regard, while acknowledging the need to use transparent and comparable indicators, invites the International Monetary Fund and the World Bank, in their assessment of debt sustainability, to take into account fundamental changes caused by, inter alia, natural disasters, conflicts and changes in global growth prospects or in the terms of trade, especially for commodity-dependent developing countries, and to continue to provide information on this issue using existing cooperation forums, including those involving Member States;

5. *Underlines* the fact that the long-term sustainability of debt depends, inter alia, on the economic growth, mobilization of domestic resources and export prospects of debtor countries and, hence, on the creation of an enabling international environment conducive to development, progress in following sound macroeconomic policies, transparent and effective regulatory frameworks and success in overcoming structural development problems;

6. *Welcomes* the introduction of the Multilateral Debt Relief Initiative, and calls for its full and timely implementation and the provision of additional resources

[5] A/61/152.

to ensure that the financial capacity of the international financial institutions is not reduced;

7. *Emphasizes* in this regard that debt relief does not replace other sources of financing;

8. *Urges* donors to ensure that their commitments to the Multilateral Debt Relief Initiative and the Heavily Indebted Poor Countries Initiative be additional to existing aid flows, and stresses that full compensation by donors on the basis of fair burden-sharing for the Multilateral Debt Relief Initiative costs of relevant financial institutions is essential;

9. *Notes with concern* that, in spite of the progress achieved, some countries that have reached the completion point of the Heavily Indebted Poor Countries Initiative have not been able to achieve lasting debt sustainability, stresses the importance of promoting responsible borrowing and lending and the need to help those countries to manage their borrowing and to avoid a build-up of unsustainable debt, including through the use of grants and concessional loans, underlines the importance of the joint Debt Sustainability Framework of the International Monetary Fund and the World Bank for low-income countries in helping to ensure that new borrowing in post-Multilateral Debt Relief Initiative countries does not undermine their long-term debt sustainability, looks forward to the review of the Framework, and encourages the application of the improved Framework in lending and borrowing decisions;

10. *Welcomes and encourages* the efforts of the heavily indebted poor countries, calls upon them to continue to improve their domestic policies and economic management, inter alia, through poverty reduction strategies, and to create a domestic environment conducive to private-sector development, economic growth and poverty reduction, including a stable macroeconomic framework, transparent and accountable systems of public finance, a sound business climate and a predictable investment climate, and in this regard invites creditors, both private and public, who are not yet fully participating in the Heavily Indebted Poor Countries Initiative to substantially increase their participation in the delivery of debt relief, and invites the international financing institutions and the donor community to continue to provide adequate and sufficiently concessional financing;

11. *Stresses* that debt relief can play a key role in liberating resources that should be directed towards activities consistent with poverty eradication, sustained economic growth and sustainable development and the achievement of the internationally agreed development goals, including the Millennium Development Goals, and in this regard urges countries to direct those resources freed through debt relief, in particular through debt cancellation and reduction, towards those objectives;

12. *Calls for* the consideration of additional measures and initiatives aimed at ensuring long-term debt sustainability through increased grant-based financing, cancellation of 100 per cent of the official multilateral and bilateral debt of heavily indebted poor countries and, where appropriate, and on a case-by-case basis, significant debt relief or restructuring for low- and middle-income developing countries with an unsustainable debt burden that are not part of the Heavily Indebted Poor Countries Initiative, as well as the exploration of mechanisms to comprehensively address the debt problems of those countries;

13. *Encourages* the Paris Club, in dealing with the debt of low- and middle-income debtor countries that are not part of the Heavily Indebted Poor Countries Initiative, to take into account their medium-term debt sustainability in addition to their financing gaps, and takes note with appreciation of the Evian approach of the Paris Club in providing terms of debt relief tailored to the specific needs of debtor countries while preserving debt cancellation for heavily indebted poor countries;

14. *Stresses* the need to significantly address debt problems of middle-income developing countries, and in this regard stresses the importance of the Evian approach of the Paris Club as a practical means to address this issue;

15. *Invites* creditors and debtors to continue to use, where appropriate and on a case-by-case basis, mechanisms such as debt swaps for alleviating the debt burden of low- and middle-income developing countries with an unsustainable debt burden that are not eligible for assistance under the Heavily Indebted Poor Countries Initiative, and takes note of the discussions and assessment by the Paris Club of the proposal for "Debt for Equity in Millennium Development Goal Projects";

16. *Stresses* the need to continue to take effective measures, preferably within the existing frameworks, to address the debt problems of the least developed countries, including through cancellation of the multilateral and bilateral debt owed by least developed countries to creditors, both public and private;

17. *Reiterates* its invitation to the World Bank and the International Monetary Fund to keep the overall implications of the debt sustainability framework for low-income countries under review, calls for transparency in the computation of the country policy and institutional assessments, and takes note of the disclosure of the country performance ratings of the International Development Association that form part of the framework;

18. *Notes* that credit rating agencies play an important role in determining countries' access to international capital markets and the cost of such borrowing, and, in this regard, calls upon the international financial and banking institutions to consider enhancing the transparency of risk rating mechanisms and notes that sovereign risk assessments made by the private sector should maximize the use of strict, objective and transparent parameters, which can be facilitated by high-quality data and analysis;

19. *Invites* donor countries, taking into account country-specific debt sustainability analyses, to continue their efforts to increase bilateral grants to developing countries, which could contribute to debt sustainability in the medium to long term, and recognizes the need for countries to be able to invest, inter alia, in health and education while maintaining debt sustainability;

20. *Welcomes* the efforts of, and calls upon, the international community to provide flexibility, and stresses the need to continue those efforts in helping post-conflict developing countries, especially those that are heavily indebted and poor, to achieve initial reconstruction for economic and social development;

21. *Also welcomes* the efforts of and invites creditors to provide flexibility to developing countries affected by natural disasters on a case-by-case basis so as to allow them to address their debt concerns;

22. *Further welcomes* the efforts of, and calls upon, the international community to support institutional capacity-building in developing countries for the

management of financial assets and liabilities and to enhance sustainable debt management as an integral part of national development strategies;

23. *Invites* the United Nations Conference on Trade and Development, the International Monetary Fund and the World Bank, in cooperation with the regional commissions, development banks and other relevant multilateral financial institutions and stakeholders, to continue cooperation in respect of capacity-building activities in developing countries in the area of debt management;

24. *Calls upon* all Member States and the United Nations system, and invites the Bretton Woods institutions and the private sector, to take appropriate measures and actions for the implementation of the commitments, agreements and decisions of the major United Nations conferences and summits, in particular those related to the question of the external debt problems of developing countries;

25. *Requests* the Secretary-General to submit to the General Assembly at its sixty-second session a report on the implementation of the present resolution and to include in that report a comprehensive and substantive analysis of the external debt situation and debt-servicing problems of developing countries;

26. *Decides* to include in the provisional agenda of its sixty-second session, under the item entitled "Macroeconomic policy questions", the sub-item entitled "External debt crisis and development".